



Communications & Liaison
STAKEHOLDER LIAISON

Be Tax Ready – Understanding Rules for Due Diligence and the Child Tax Credit and Earned Income Tax Credit Under the American Rescue Plan Act of 2021

Veronica Tubman
Senior Stakeholder Liaison

Yvette Brooks- Williams
Senior Stakeholder Liaison

45th Annual Delaware Federal & State Tax Institutes
December 7, 2021

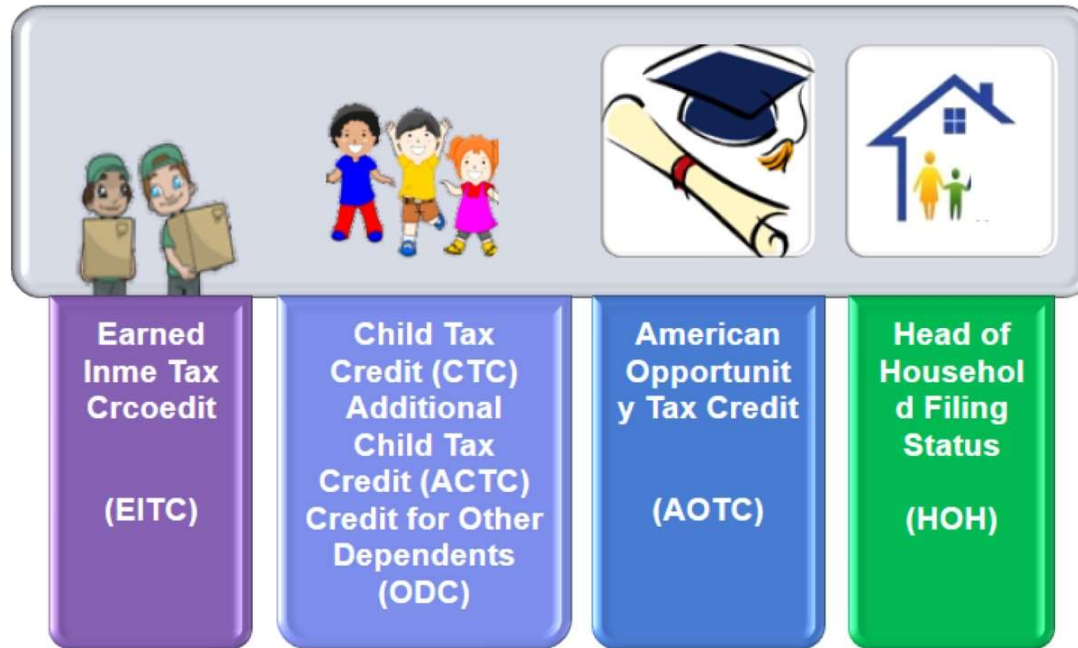


Topics

- Introduce how the American Rescue Plan Act (ARPA) of 2021 affects returns claiming refundable credits
- Explore how ARPA rules impact your clients' eligibility for the earned income tax credit (EITC) and enhanced child tax credit (CTC)
- Review due diligence requirements for the EITC, CTC, AOTC and head of household filing status and discuss how ARPA impacts the requirements
- Explain how to avoid common errors related to due diligence and claiming the applicable tax benefits
- Share IRS' online resources for paid preparers



Due Diligence Tax Benefits





Tax Return Preparer Toolkit



EITC.IRS.gov or IRS.gov/toolkit

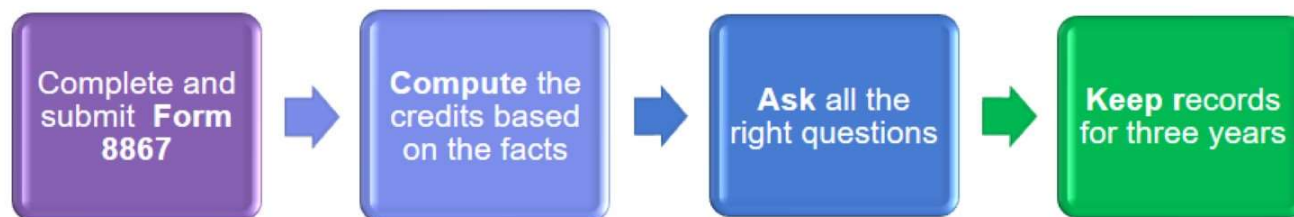
– or –

- In IRS.gov, search: “toolkit”
- In commercial search engines, enter:
 - Tax preparer toolkit or Tax toolkit or Preparer toolkit



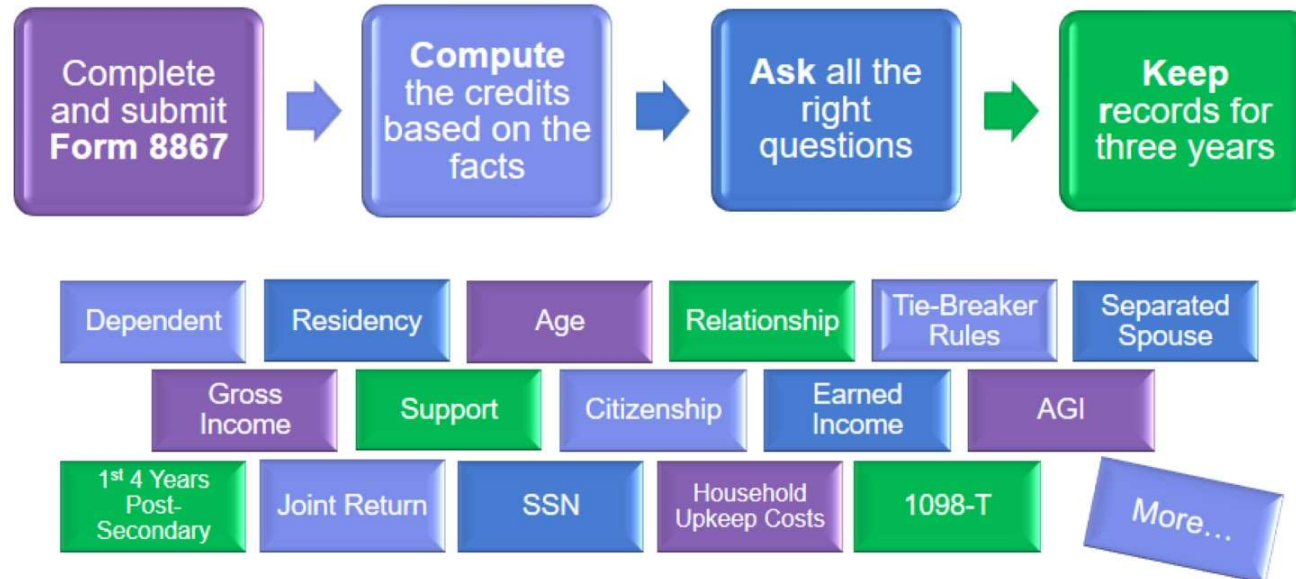
Due Diligence Requirements Review

As a paid tax return preparer, you must:





Due Diligence Requirements Review (cont.)







Taxpayer Identification Numbers

		 		ITIN ATIN
EITC	All Parties *	✓	✗ !	✗
CTC	Taxpayer	✓	✓	✓
	Child	✓	✗	✗
ODC	All Parties *	✓	✓	✓
AOTC	All Parties *	✓	✓	✓
HOH	All Parties *	✓	✓	✓
* Taxpayer, spouse, if any, and any qualifying person claimed ! If issued to get federally funded benefit, SSN is not valid for EITC				



Earned Income Tax Credit – Basic Rules





EITC – New Rule for Separated Spouse

New,
beginning
in tax year
2021

Client who is separated spouse
can be treated as **unmarried**
for EITC purposes



Joint Return

Does not file joint
return



Residency

Client resides
with their
qualifying child
for more than
half the year



Separation from Spouse

Client does not have same principal
place of abode as their spouse for
last 6 months of tax year

or

Has a decree, instrument or agreement
with their spouse and is not a member
of same household by end of tax year



Childless EITC – Basic Rules

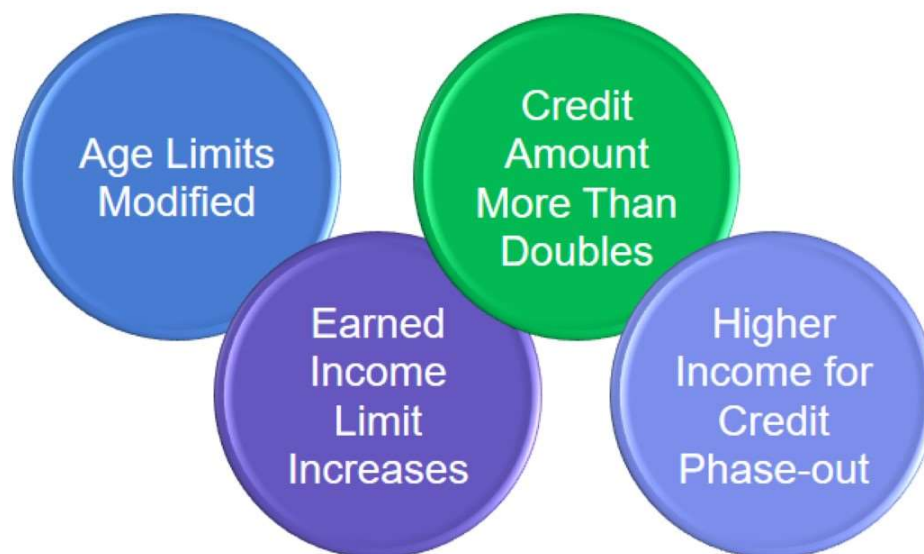
Age must
be within
applicable
limits

Cannot be
dependent
of another
person

Must live in
U.S. for
more than
half the
year



Childless EITC – Only for 2021 Returns





Childless EITC Only for 2021 Returns – Age



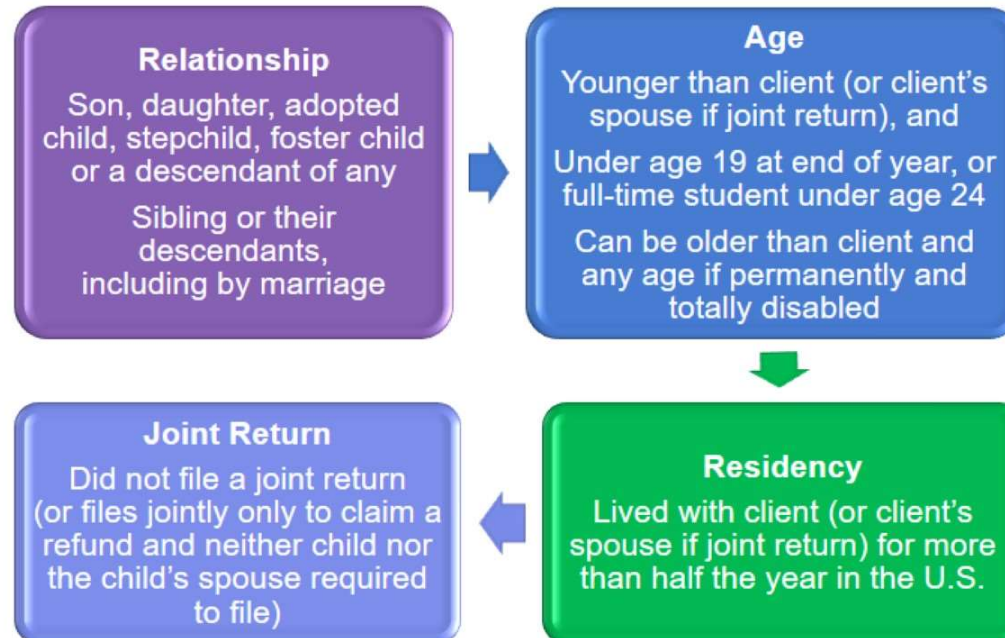


EITC with a Qualifying Child – Basic Rules





EITC – Qualifying Child





EITC – Taxpayer Identification Numbers

					ITIN ATIN	
EITC	Taxpayer Spouse Child					
 If issued to get federally funded benefit, SSN is not valid for EITC						

- SSN must be issued *on or before* due date of return, including extensions

Generally, your client can be eligible for childless EITC if none of their children meet ‘valid SSN’ requirement.



EITC Due Diligence





EITC – Preparer Toolkit Resources

EITC.IRS.gov



Earned Income Tax Credit & Other Refundable Credits

EITC Central

Tax Preparer Toolkit

Partner Toolkit

Other Refundable Credits



Hot Topics for Return Preparers

Preparer Due Diligence



Due Diligence Training Module

Form 886-H-EIC Toolkit

Tools and Tips

Child Related Tax Benefit
Comparison

Tools and Tips

Handling Processing Errors

Handling the Most Common Due
Diligence Situations

Handling the Most Common Errors

Form 886 Can Assist You

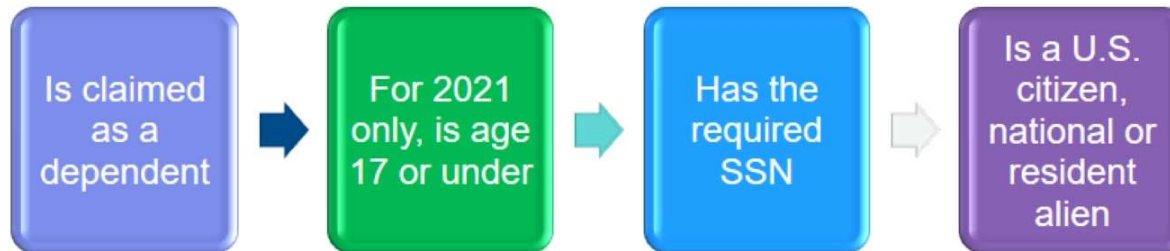
Publications 4687

Form 8867





Child Tax Credit – Basic Rules for Qualifying Child





Child Tax Credit – Qualifying Child

Relationship

Son, daughter, adopted,
step or eligible foster child
or descendant of any
Sibling or their descendant

Age

For 2021 only, is age
17 or younger

Residency

Lived with client more
than half the year

Joint Return

Did not file joint return

Support

Did not provide over
half of own support

Citizenship

U.S. citizen, national or
resident alien



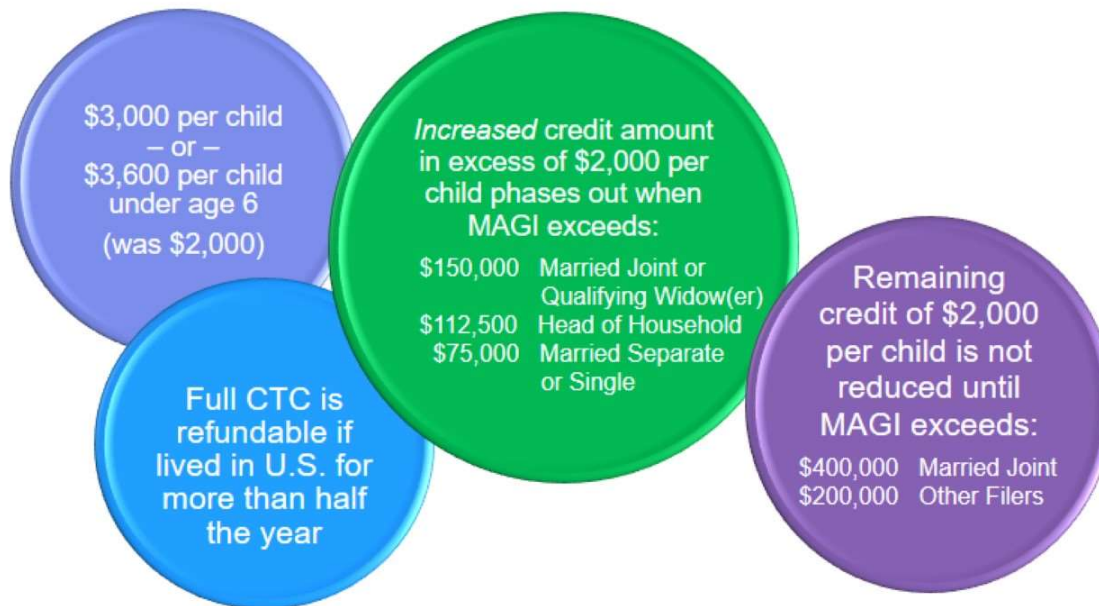
CTC – Taxpayer Identification Numbers

 					ITIN ATIN
CTC	Taxpayer				
	Child				

- Client's taxpayer ID number, and spouse's if filing jointly, must be issued *on or before* due date of return, including extensions
- Child's SSN must be issued *before* due date of return, including extensions



Child Tax Credit – Only for 2021 Returns





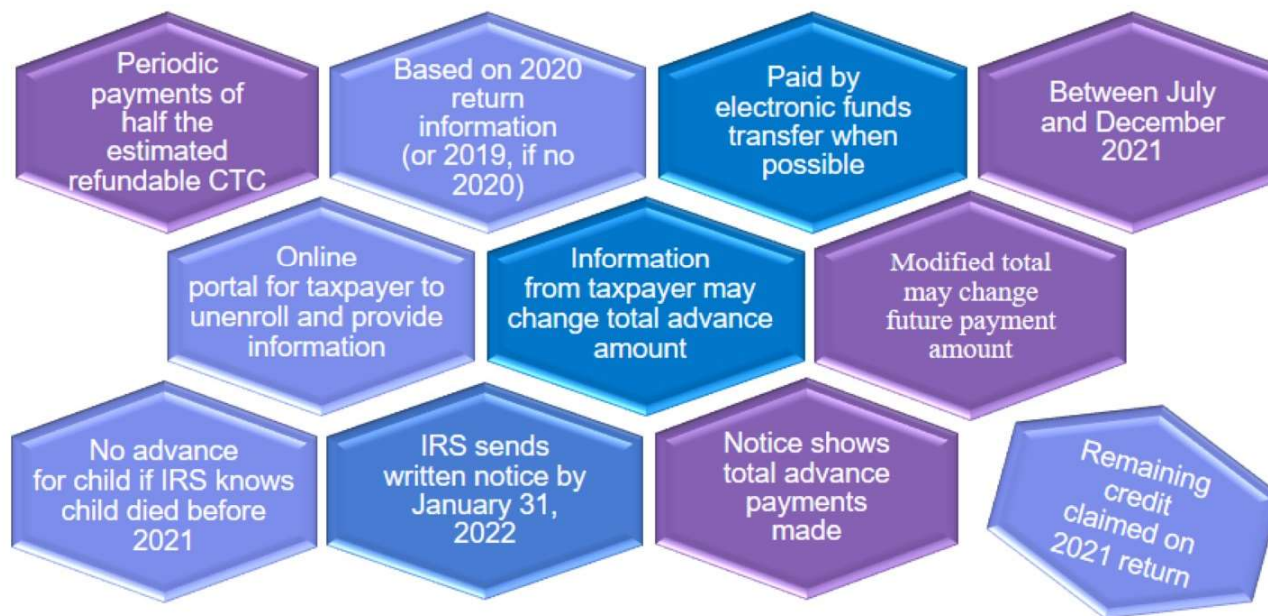
Child Tax Credit Example – Tax Year 2021

- HOH
- Two dependent children, ages 10 and 3
- All have valid SSN
- Live in U.S.

Wages / MAGI	\$40,000	\$125,000	\$220,000
Credit (\$3,000 + \$3,600)	\$6,600	\$6,600	\$6,600
Increased Credit (\$1,000 + \$1,600)	\$2,600	\$2,600	\$2,600
MAGI Phase-Out of Increased Credit		$\$125,000 - \$112,500 = \$12,500$ rounded up to \$13,000 $\times 5\%$ Reduction \$650	$\$220,000 - \$112,500 = \$107,500$ rounded up to \$108,000 $\times 5\%$ Reduction \$5,400 Limited to \$2,600
MAGI Phase-Out of Remaining Credit			$\$220,000 - \$200,000 = \$20,000$ $\times 5\%$ Second reduction \$1,000
Refundable CTC	\$6,600	\$5,950	\$3,000

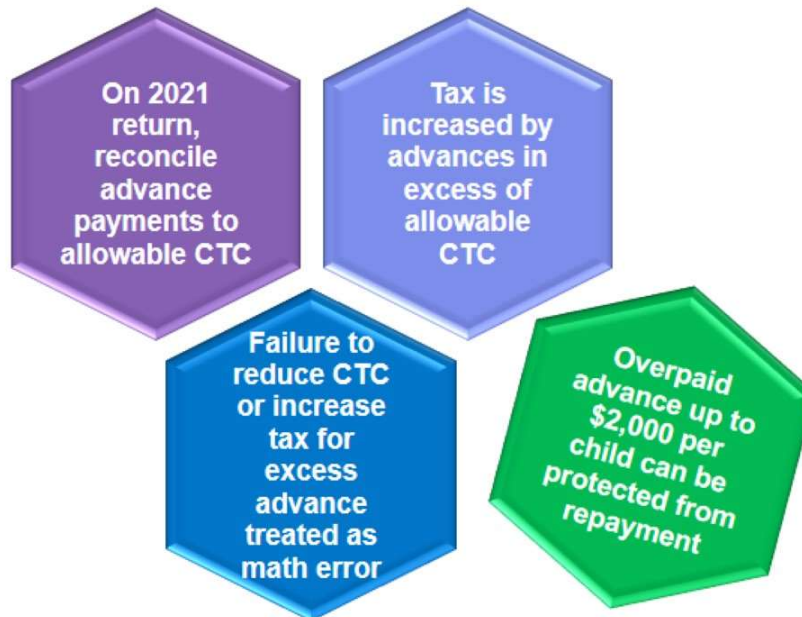


Advance CTC Payment for 2021 Returns





Advance CTC Payment – Reconciliation





Advance CTC Reconciliation – Repayment Limitation

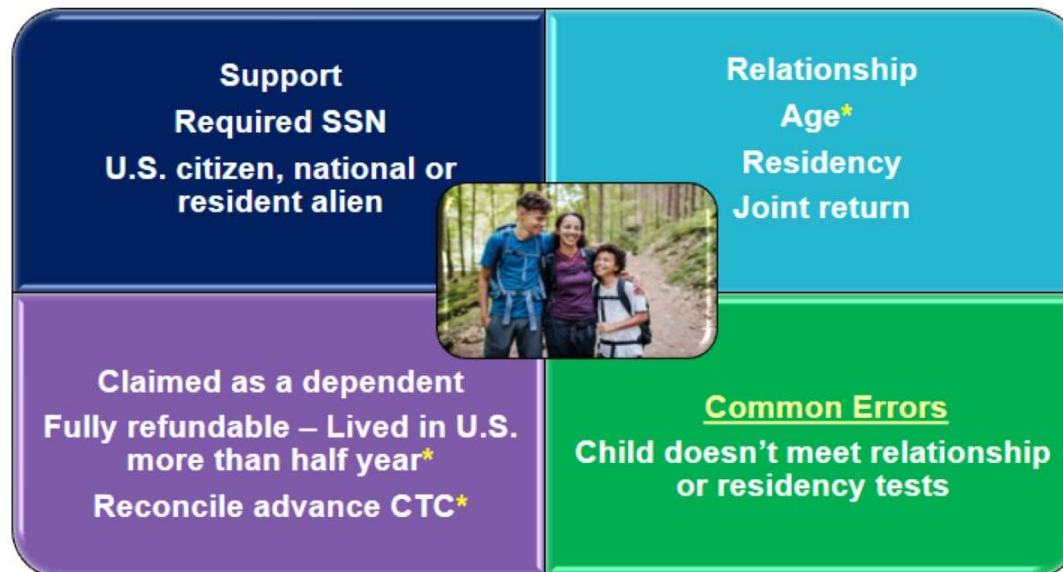
Full repayment protection if
main home in U.S. and
MAGI does not exceed:

\$60,000	Married Joint or Qualifying Widow(er)
\$50,000	Head of Household
\$40,000	Married Separate or Single

Repayment
protection decreases
to \$0 as MAGI
reaches double the
threshold amount



CTC/ACTC Due Diligence



* Temporary rule enhancement for 2021 returns



Credit for Other Dependents – Basic Rules for Qualifying Person



Examples:

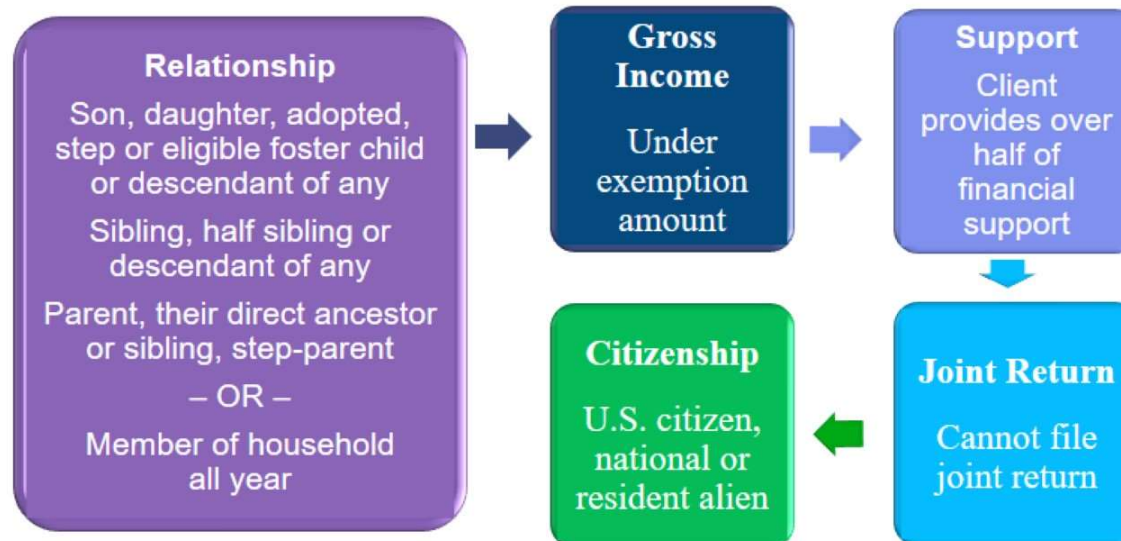
- CTC child with an SSN not valid for employment or an ITIN or ATIN
- CTC child (for 2021) over age 17
- Relative who depends on your client for more than half their financial support
- A person not related to your client but lives with client for entire year



Credit for Other Dependents – Qualifying Person

CTC child who doesn't have required SSN or, for 2021, is over age 17

– OR –





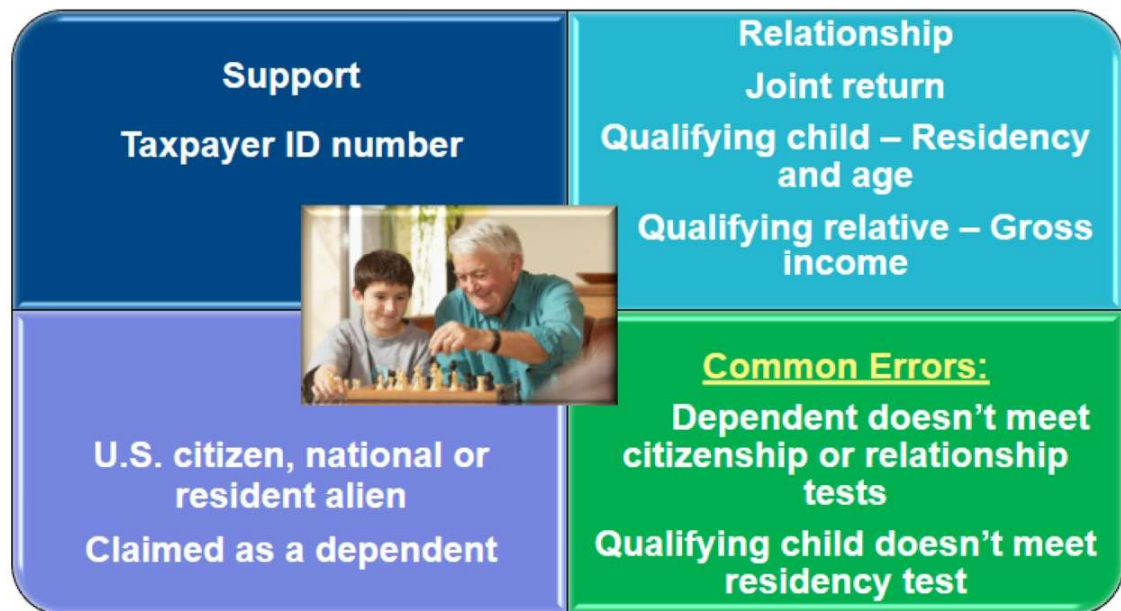
ODC – Taxpayer Identification Numbers

				ITIN ATIN
ODC	Taxpayer Spouse Dependent	✓	✓	✓

- ID numbers for client, their spouse if filing jointly and dependent must be issued *on or before* due date of return, including extensions



ODC Due Diligence





CTC and ODC – Preparer Toolkit Resources EITC.IRS.gov



Earned Income Tax Credit & Other Refundable Credits

EITC Central

Tax Preparer Toolkit

Partner Toolkit

Other Refundable Credits

Hot Topics for Return Preparers

Preparer Due Diligence

Due Diligence Training Module

Form 886-H-EIC Toolkit

Tools and Tips

Child Related Tax Benefit
Comparison



For Advance CTC resources, enter:

“advance CTC” in IRS.gov or
commercial search engine

or

URL: [irs.gov/credits-
deductions/advance-child-tax-
credit-payments-in-2021](https://irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021)



AOTC Due Diligence

First 4 years of postsecondary school

No more than 4 tax years per student

Client, spouse or dependent

Taxpayer ID number by return due date, including extensions

Form 1098-T

Student enrolled at least half time pursuing recognized credential

No felony drug conviction



Common Errors:

No Form 1098-T

Expenses don't qualify or aren't considered paid by client

Credit claimed for student for more than 4 tax years



AOTC – Preparer Toolkit Resources

EITC.IRS.gov

Earned Income Tax Credit & Other Refundable Credits

EITC CentralTax Preparer ToolkitPartner ToolkitOther Refundable Credits

Search

What You Need to Know about AOTC and LLC

Hot Topics for Refundable Credits

Tax Forums

What You Need to Know about AOTC and LLC

Education Credits Products

Avoid Common AOTC Errors

AOTC Key Messages

Compare Education Credits

Know the Questions to Ask about Refundable Credits

The American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC) can reduce a taxpayer's income tax liability dollar-for-dollar for [qualified education expenses paid](#). These credits can help offset the cost of higher education.

Here's what tax return preparers need to know:

- **Eligibility requirements** – Start with our [comparison credits comparison chart](#) for a quick look or review the [Education Credits](#) page for more details.
- **Review Form 1098-T** [PDF](#) – Did the student attend at least half time for a full academic period? Is the 'graduate student' box checked? For what academic period are the amounts reported? Remember the amount in Box 1 on Form 1098-T may differ from the amount your client can use to compute a credit on this year's tax return.
- If the student **didn't receive a Form 1098-T** [PDF](#), inform your client that the IRS may ask for documentation to support the credit. See Forms [866-H-AOC](#) [PDF](#) and [866-H-AOC-MAX](#) [PDF](#) for examples of helpful documentation. Also available in Spanish, [Form 866-H-AOC\(SP\)](#) [PDF](#).

Resources - Tax Credits for Education

- Find the **latest news for refundable credits** on our [What's Hot](#) page.
- See the AOTC and LLC criteria side by side on our [Compare Education Credits](#) chart.

Related Forms and Publications

- [Publication 970](#) [PDF](#), Tax Benefits for Education
- [Form 1098-T](#) [PDF](#), Tuition Statement



Head of Household Due Diligence

Client unmarried or
considered unmarried
at end of year

Client paid over half
the cost of
keeping up a home



Client lived in home with a
qualifying person for
more than half the year
– or –
Supported separate home for
dependent parent

Common Errors:

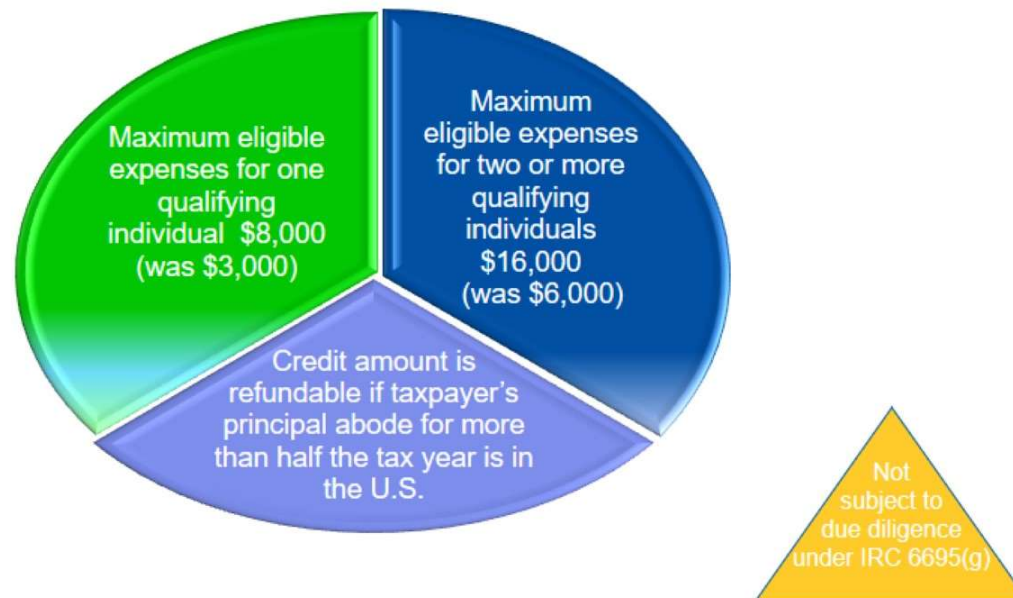
Client didn't pay more than half the
home upkeep cost

Client didn't live with a qualifying
person more than half the year

Filing status should be
married separate



Child and Dependent Care Credit for 2021 Returns





Premium Tax Credit (PTC) for 2021 Returns

Taxpayer's
household
income may
exceed 400%
of the federal
poverty line

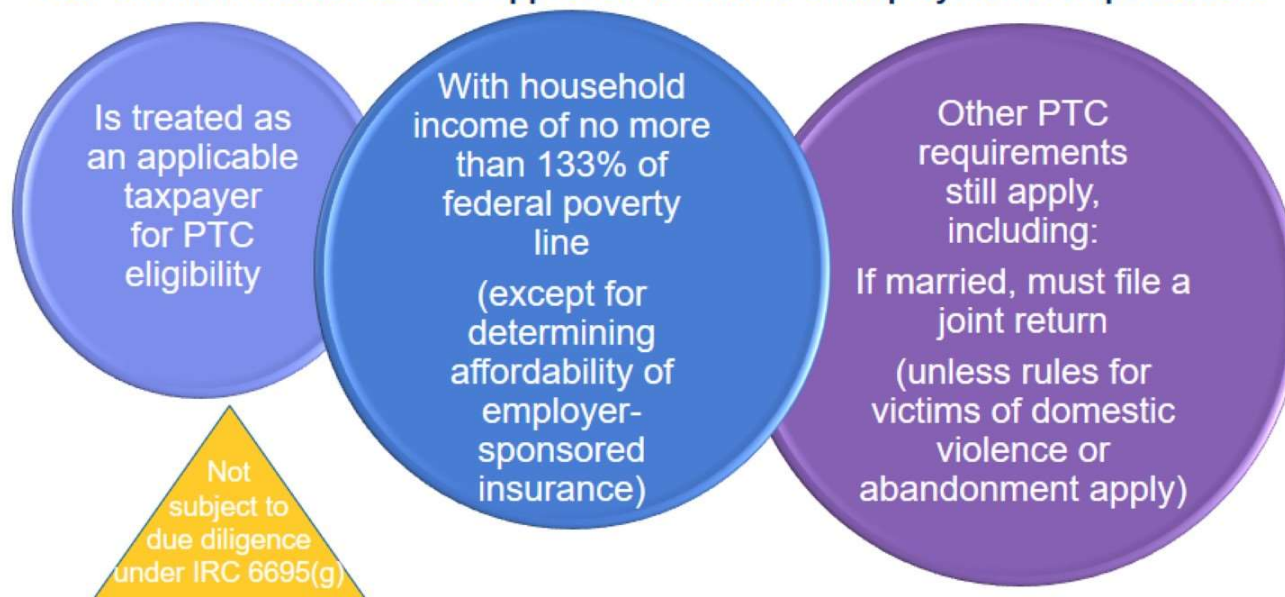
Generally,
increased
credit
amounts

Not
subject to
due diligence
under IRC 6695(g)



PTC for 2021 – Unemployment Compensation

Your client who receives or is approved to receive unemployment compensation:





Key Points



IRS.gov/toolkit
EITC.IRS.gov

Use the return preparer toolkit
as a due diligence resource



Due Diligence Requirements

Know the rules for tax benefits
subject to due diligence

Review your procedures to
ensure you comply with the
four requirements



EITC



Separated spouse can be treated as unmarried (new)

Can use 2019 earned income, if higher (for tax year 2021 only)

Childless EITC age rule modified (for tax year 2021 only)



Key Points (cont.)

CTC



For 2021 only:

Child can be age 17 or younger

Enhanced credit amounts: \$3,000 or \$3,600 under age 6

Full credit refundable if lived in U.S. more than half the year

Reconcile advance payments on 2021 return

Certain overpaid advances may be protected from repayment

Communications & Liaison
STAKEHOLDER LIAISON

Veronica Tubman

Senior Stakeholder Liaison

veronica.Tubman@irs.gov

Yvette Brooks-Williams

Senior Stakeholder Liaison

yvette.brookswilliams@irs.gov